

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

LEIGH C. FORD

JULY 1, 2013



DOCKET NO. 2013-59-E

**Application of Duke Energy Carolinas, LLC
for Authority to Adjust and Increase Its
Electric Rates and Charges**

DIRECT TESTIMONY OF LEIGH C. FORD

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2013-59-E

**IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC FOR
AUTHORITY TO ADJUST AND INCREASE ITS
ELECTRIC RATES AND CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Leigh C. Ford. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina 29201. I am employed by the State of South
Carolina as a Senior Electric Utilities Specialist in the Electric Department for the
Office of Regulatory Staff (“ORS”).

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I earned a Bachelor’s Degree from Lenoir-Rhyne University. Prior to my
employment with ORS I was a Field Service Representative with the South
Carolina Budget and Control Board. I joined ORS in November 2007 as an
Electric Utilities Specialist and was promoted to Senior Electric Utilities
Specialist in May 2010.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. Yes, I have. I testified before this Commission in fuel and general rate
proceedings. I also presented an allowable ex-parte briefing regarding renewable
resources and their role in South Carolina’s electric generation portfolio.

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1401 Main Street, Suite 900
Columbia, SC 29201**

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to summarize the ORS Electric
4 Department's examination of certain accounting and pro forma adjustments and
5 provide recommendations in Duke Energy Carolinas, LLC's ("Company" or
6 "Duke") Application for a general increase in its electric rates and charges.

7 **Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE ADDRESSING IN**
8 **YOUR TESTIMONY.**

9 **A.** My testimony addresses the Company's proposed adjustments to storm
10 costs; Operating and Maintenance ("O&M") labor costs; increased benefits costs;
11 the Company's proposal to amortize the deferral balance associated with a grant
12 made to Clemson University; and the deferral balance associated with the Buck
13 combined cycle ("Buck") and Bridgewater hydroelectric ("Bridgewater")
14 generating plants.

15 My testimony also addresses the Company's proposal to reflect the O&M
16 expenses associated with the additions of the Cliffside Unit 6 coal-fired plant
17 ("Cliffside 6") and the Dan River combined-cycle plant ("Dan River"); amortize
18 the deferral balances related to Cliffside 6, Dan River, McGuire nuclear plant
19 ("McGuire") up-rates and the Oconee nuclear plant ("Oconee") High Energy Line
20 Break ("HELB") project; and adjust officers' compensation.

21 My testimony also addresses ORS's proposed adjustments to Board of
22 Directors' Fees and nuclear decommissioning expenses. These adjustments, more
23 fully discussed below, were provided by the ORS Electric Department to the ORS

1 Audit Department and can be seen in Audit Exhibit RAL-2 of ORS witness
2 Robert Lawyer.

3 Finally, my testimony will discuss ORS's proposed treatment of a portion
4 of the Cost of Removal Reserve and resulting two-year phase-in of the proposed
5 rate increase.

6 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO NORMALIZE TEST YEAR**
7 **EXPENSES FOR STORM COSTS.**

8 **A.** Company Adjustment #2 normalizes storm restoration expenses in the test
9 year to a 10-year average, resulting in an increase in test year expenses of
10 approximately \$8.7 million. Due to fluctuations in annual storm restoration costs,
11 ORS recommends eliminating the highest and lowest years of these costs and
12 utilizing an eight-year average. This results in an approximately \$2.4 million
13 reduction of the Company's proposed adjustment and is reflected in ORS witness
14 Robert Lawyer's Adjustment #2.

15 **Q. WHAT IS THE STATUS OF THE COMPANY'S STORM RESERVE**
16 **FUND?**

17 **A.** Order No. 2010-79 approved the establishment of a Storm Reserve Fund
18 ("Reserve Fund") to offset Duke's storm restoration costs which allowed the
19 Company to collect approximately \$5 million per year for the Reserve Fund. As
20 of June 2013, the balance of the Reserve Fund was more than \$17 million and the
21 balance is estimated to be more than \$18 million by September 2013. To date, the
22 Company has not withdrawn any funds from the Reserve Fund to offset storm
23 restoration expenses.

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO NORMALIZE O&M LABOR**
2 **COSTS.**

3 **A.** Company Adjustment #5 normalizes O&M labor costs to account for
4 increases in wages and related benefit costs. Duke also makes an adjustment to
5 restate the test year variable or bonus pay to the target amounts.

6 ORS proposes to remove fifty percent (50%) of employee bonuses as they
7 are driven by earnings per share.

8 These adjustments reduce test year expenses by approximately \$11.2
9 million more than the Company's proposal and are reflected in ORS witness
10 Robert Lawyer's Adjustment #5.

11 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO UPDATE FOR INCREASED**
12 **BENEFITS COSTS.**

13 **A.** Duke proposes to adjust the annual level of pension and Other Post-
14 Employment Benefits ("OPEB") expenses in Company Adjustment #6. This
15 adjustment also reflects a return on the contribution Duke expected to make to its
16 pension plan and OPEB.

17 ORS agrees with the Company's adjustment to reflect the annual expense
18 associated with these benefits. However, ORS recommends eliminating the return
19 on the Company's expected contribution, as it was not made, and therefore is not
20 known and measurable. The removal of the return on this contribution decreases
21 the Company's adjustment by approximately \$1.2 million and is reflected in ORS
22 witness Robert Lawyer's Adjustment #6.

1 **Q. PLEASE EXPLAIN THE COMPANY'S ADJUSTMENT TO AMORTIZE**
2 **THE DEFERRAL BALANCE RELATED TO A DEVELOPMENT GRANT**
3 **MADE TO CLEMSON UNIVERSITY.**

4 **A.** Order No. 2012-298 granted Duke's petition for an accounting order to
5 defer the costs associated with a research and development grant made to
6 Clemson University. The Company deferred \$1.5 million of a \$3 million grant
7 that was donated to Clemson to assist in building a grid simulator facility. In this
8 Docket, Duke is requesting to amortize the deferral balance over five (5) years.
9 ORS agrees with the Company's proposed amortization and recommends that the
10 Company continue to share the costs of future grants between ratepayers and
11 stockholders. This adjustment is also addressed by ORS witness Arnold Owino.

12 **Q. PLEASE ADDRESS THE COMPANY'S PROPOSAL TO AMORTIZE**
13 **THE DEFERRAL BALANCE RELATED TO BUCK AND**
14 **BRIDGEWATER.**

15 **A.** The Company received approval in Order No. 2012-208 for an accounting
16 order to defer certain capital and operating costs incurred for Buck and
17 Bridgewater. Company Adjustment #21 amortizes these deferred amounts over
18 five (5) years and includes a return on the deferred and unamortized balances.

19 ORS recommends eliminating the return on the deferred balance and
20 amortizing these costs over the remaining lives of Buck and Bridgewater, which
21 are thirty- three (33) and fifty (50) years, respectively. ORS also recalculated the
22 return on the unamortized balance at its proposed 10.2% return on equity
23 ("ROE") as compared to the 11.25% ROE proposed by Duke. These

1 recommendations decrease the Company's adjustment by approximately \$2.5
2 million and are reflected in ORS witness Robert Lawyer's Adjustment #21.

3 **Q. WHAT IS ORS'S RECOMMENDATION ON THE ADJUSTMENT FOR**
4 **O&M EXPENSES RELATED TO THE ADDITION OF CLIFFSIDE 6?**

5 **A.** Company Adjustment #24 increases test year O&M expenses to account
6 for the additional costs associated with Cliffside 6. In its adjustment, Duke
7 calculated labor costs with three percent (3%) inflation and included bonuses for
8 employees. ORS proposes to remove all calculations based on inflation and
9 remove fifty percent (50%) of bonuses as they are tied to earnings per share. This
10 is consistent with ORS's recommendations for Company Adjustments #4 and #5.
11 Additional adjustments related to Cliffside 6 are addressed by ORS witness Joe
12 Coates and reflected in ORS witness Robert Lawyer's Adjustment #24.

13 **Q. PLEASE EXPLAIN ORS'S RECOMMENDATION AS TO THE**
14 **ADJUSTMENT FOR O&M EXPENSES RELATED TO THE ADDITION**
15 **OF DAN RIVER.**

16 **A.** In Company Adjustment #25, Duke proposes to increase O&M expenses
17 to account for the additional costs associated with Dan River. In this adjustment,
18 Duke calculated labor costs with three percent (3%) inflation and included
19 bonuses for employees. ORS proposes to remove all calculations based on
20 inflation and remove fifty percent (50%) of bonuses as they are tied to earnings
21 per share. This is consistent with ORS's recommendations for Company
22 Adjustments #4, #5 and #24. Additional adjustments related to Dan River are

1 addressed by ORS witness Joe Coates and reflected in ORS witness Robert
2 Lawyer's Adjustment #25.

3 **Q. PLEASE ADDRESS THE ADJUSTMENT TO AMORTIZE THE**
4 **DEFERRAL BALANCE RELATED TO CLIFFSIDE 6, DAN RIVER,**
5 **MCGUIRE AND OCONEE.**

6 **A.** In Company Adjustment #27, Duke proposes to amortize the cost of
7 capital, depreciation and O&M expenses that were not included in the test year for
8 the additions of Cliffside 6, Dan River, the up-rates at McGuire and the Oconee
9 HELB projects. This adjustment amortizes these amounts over five (5) years and
10 includes a return on the deferred costs and unamortized balances.

11 ORS recommends amortizing these costs over the remaining life for each
12 plant. The remaining lives of the plants range from twenty (20) to thirty-five (35)
13 years. ORS also recalculated the return on the unamortized balance at its
14 proposed 10.2% ROE as compared to the 11.25% ROE proposed by Duke. These
15 recommendations decrease the Company's adjustment by approximately \$6.3
16 million and are reflected in ORS witness Robert Lawyer's Adjustment #27.

17 **Q. PLEASE EXPLAIN THE ORS'S RECOMMENDATION REGARDING**
18 **THE COMPANY'S ADJUSTMENT PERTAINING TO OFFICER**
19 **COMPENSATION.**

20 **A.** Company Adjustment #34 adjusts test year O&M expense to remove the
21 compensation of certain Duke Energy officers that was incorrectly booked to
22 Duke Energy Carolinas. ORS agrees with the Company's adjustment.

1 In addition to removing the amounts that were incorrectly booked to Duke,
2 ORS recommends removing fifty percent (50%) of the salaries of the Company's
3 top four officers charged to South Carolina operations. This additional adjustment
4 decreases test year expenses by approximately \$119,000 and is reflected in ORS
5 witness Robert Lawyer's Adjustment #34.

6 **Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENT TO**
7 **BOARD OF DIRECTORS' FEES.**

8 **A.** During the test year, ORS noted that amounts charged for Board of
9 Directors' fees were higher than historical amounts. Additionally, ORS
10 recognizes that the allocation of these expenses to Duke decreased following the
11 merger of Duke Energy Corporation and Progress Energy, Inc. Therefore, ORS
12 recommends normalizing test year Board of Directors' fees and decreasing the
13 allocation of these fees to Duke Energy Carolinas. These adjustments lower test
14 year expenses by approximately \$202,000 and are reflected in ORS witness
15 Robert Lawyer's Adjustment #40.

16 **Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENT TO**
17 **NUCLEAR DECOMMISSIONING EXPENSES.**

18 **A.** The Company's last nuclear decommissioning study and funding study
19 ("Studies"), which determine the cost to retire and dismantle the Company's
20 nuclear plants, were performed in 2008 and determined that approximately \$48
21 million needed to be accrued annually on a system basis to fund plant
22 decommissioning. Updated Studies are expected to be completed in the next year
23 and the Company anticipates that the current levels of decommissioning expense

1 will exceed the anticipated levels needed by approximately \$27 million on a
2 system basis. ORS proposes to decrease the test year decommissioning expenses
3 that are being accrued by approximately \$6.5 million to reflect the anticipated
4 levels of decommissioning expense. This adjustment is reflected in ORS witness
5 Robert Lawyer's Adjustment #41.

6 ORS understands that this adjustment is based on anticipated accrual
7 levels that could change based on the final Studies. Should the Company's
8 Studies result in costs that significantly deviate from the presently anticipated
9 level, ORS would not contest the Company requesting the Commission grant an
10 accounting order allowing the deferral of these incremental expenses.

11 **Q. PLEASE DISCUSS ORS'S PROPOSED TREATMENT OF A PORTION**
12 **OF THE COST OF REMOVAL RESERVE.**

13 **A.** Duke maintains a reserve that is used to offset the cost to remove
14 Company assets when these assets are retired. Contributions are made to this
15 reserve based on the Company's depreciation study and reflect the estimated
16 amount needed to properly remove these assets from service. After discussions
17 with the Company, ORS recommends removing \$45 million from this reserve for
18 rate mitigation in this Docket. ORS proposes offsetting \$45 million of the first
19 year of the rate increase with funds from this reserve, thereby creating a two-year
20 phase-in of rates as shown in ORS witness Seaman-Huynh's Exhibit MSH-1.
21 This will help mitigate the impact of the rate increase for ratepayers while
22 allowing the appropriate revenue recovery for the Company.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A.**Yes, it does.